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Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 FEA-01 AGR-05 CEA-01 CIAE-00 COME-00

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R 201741Z NOV 75
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TO SECSTATE WASHDC 1697
INFO AMEMBASSY BELGRADE
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AMEMBASSY BUDAPEST
AMEMBASSY LONDON
AMEMBASSY MOSCOW
AMEMBASSY PARIS
AMEMBASSY PRAGUE
AMEMBASSY SOFIA
AMEMBASSY WARSAW
USDOC
USMISSION NATO
USMISSION USBERLIN

C O N F I D E N T I A L SECTION 1 OF 2 BERLIN 6751X

USDOC FOR BEWT FOR DOWNEY

E.O. 11652: GDS
TAGS: GE, PFOR, EGEN
SUBJECT: VISIT OF STATE SECRETARY BEIL

REF: STATE 270674

SUMMARY: STATE SECRETARY GERHARD BEIL, A CAPABLE AND
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DISCIPLINED REPRESENTATIVE OF HIS COUNTRY, VISITS THE

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UNITED STATESNOV. 29-DEC. 9. THE TRIP HAS IMPORTANT
SYMBOLIC VALUE TO THE GDR REGIME WHICH WILL USE IT TO
DEMONSTRATE US ACCEPTANCE OF THE GDR TO ITS OWN POPU-
LATION AND THE WORLD BEYOND. ON SUBSTANTIVE ISSUES,
BEIL WILL BE LOBBYING AS BEST HE CAN FOR IMPROVEMENT
IN CONDITIONS AFFECTING GDR TRADE WITH THE US. WE
THINK USG SPOKEMEN SHOULD EXPRESS INTEREST IN THE
DEVELOPMENT OF MUTUALLY BENEFICIAL TRADE AT A NATURAL
EXTENSION OTF THE CONFIDENCE AND POWER OF THE US
ECONOMY. THE US SHOULD BE CANDID IN ASSESSING FOR BEIL
THE LEGISLATIVE ENVIRONMENT IN WHICH US-GDR TRADE TAKES
PLACE AND THE CONCERNS OF CONGRESS WHICH UNDERLIE IT.
WE SHOULD SAY WE ARE PLEASED WITH RECENT STEPS
IN THE DEVELOPMENT OF OUR TRADE RELATIONSHIP, AND WE
WILL CONTINUE TO WATCH HOW THE GDR RESPONDS TO OURBUSINESS
PEOPLE AS AN INDEX OF GDR INTENTIONS. END SUMMARY.

1. NUMBER TWO IN THE GDR MINISTRY OF FOREIGN TRADE,
STATE SECRETARY GERHARD BEIL PLANS A VISIT TO THE
UNITED STATES NOV. 29-DEC. 9 ACCOMPANIED BY TEN PERSONS
(BERLIN 6717).

2. THE MAN. BEIL, WHO IS THE REGIME'S TOP MAN ON
TRADE WITHE THE NON-SOCIALIST WORLD, IS A VETERAN FOREIGN
TRAVELER, INCLUDING A TRIP TO THE UNITED STATES IN
NOVEMBER 1972. HE CAN BE ARROGANT AND SURLY, AS HE WAS
AFTER THE USG KILLED HIS PROJECTED TRIP TO THE
UNITED STATES AT THE BEGINNING OF THIS YEAR, AND HE
CAN BE POLITE AND CORRECT, AS WHEN HE MET WITH COMMERCE
DEPUTY ASSISTANT SECRETARY DOWNEY AT LUNCH IN
LEIPZIG IN SEPTEMBER. CULTIVATING A COLD, SOMEWHAT
IMPERIOUS STYLE WHICH HIS SUBORDINATES TEND TO COPY,
HE IS A CAPABLE REPRESENTATIVE OF HIS COUNTRY, PRO-
MOTING GDR INTERESTS WITH ENERGY AND DISCIPLINE.
WESTERN DIPLOMATS IN BERLIN WHO HAVE ACCOMPANIED BEIL
ON TRIPS TO THEIR COUNTRIES HAVE HIGH REGARD FOR HIS
ABILITIES. HIS QUICKNESS OF MIND AND ABILITY TO
HANDLE HIMSELF IN NEGOTIATING SITUATIONS IMPRESSED OUR
COLLEAGUES, AND HIS SELF-DISCIPLINE MARKS BEIL AS
SOMEONE A BIT UNUSUAL. THE DUTCH TELL US THAT AT A
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STUNNING DINNER PUT ON IN HOLLAND IN BEIL'S HONOR BY
A BUSINESS FIRM, THE GUEST OF HONOR AROSE FROM THE TABLE
SHORTLY AFTER 9:00 P.M., ANNOUNCING TO THE GREAT CONSTER-
NATION OF HIS HOSTS THAT HE RETIRES AT 10:00 P.M. NIGHTLY
IN ORDER TO BE IN SHAPE TO DO BUSINESS ON THE DAY FOLLOW-
ING. FOR THE LAST FOUR WEEKS, BEIL HAS BEEN ON A REST
CURE (KUR) AWAY FROM BERLIN AND SHOULD BE LOADED FOR
BEAR ON HIS ARRIVAL IN THE UNITED STATES.

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3. THE SETTING. BEIL WILL BE GOING TO THE UNITED STATES FROM A GDR IN WHICH KEY ECONOMIC DECISIONS ARE CURRENTLY BEING WORKED OUT, AND THE FUTURE IS MURKY AT BEST. A FIVE-YEAR NATIONAL ECONOMIC PLAN IS CREEPING TO AN END, MORE WITH A WHIMPER THAN A BANG; AND A NEW PLAN IS REACHING A CRUCIAL STAGE IN ITS FORMULATION. STEEP RISES IN THE PRICES PAID FOR RAW MATERIALS AND FUEL FROM THE EAST AND FOR INDUSTRIAL AND CONSUMER GOODS FROM THE WEST HAVE DISRUPTED PLANNING AND ARE PUTTING UNACCUSTOMED PRESSURE ON EAST GERMAN CAPACITY TO PAY ITS BILLS. FACTORIES AND FARMS ACROSS THE BOARD ARE BEING TOLD TO PRODUCE MORE WITH LESS. AT THE SAME TIME THE REGIME IS DEEPLY COMMITTED TO STABLE CONSUMER PRICES, MAINTAINTED AT THE COST OF HEAVY GOVERNMENT SUBSIDIES SPECULATION NOW CENTERS ON THE POSSIBILITY, EVEN THE LIKELIHOOD, OF PRICE RISES BEFORE OR DURING THE 9TH PARTY CONGRESS SCHEDULED FOR MAY, 1976. LARGE PURCHASES OF U.S. ORIGIN GRAINS THIS YEAR WILL CUSHION THE EFFECTS OF A DISAPPOINTING HARVEST. BUT THE GDR HAS NOT GOTTEN AGREEMENT TO DIVERT INDUSTRIAL EXPORTS FROM EAST TO WEST TO PAY THE BILLS; AND THE DEFICIT ON FOREIGN TRADE WITH THE NON-SOCIALIST WORLD ($1.1 BILLION IN 1974) AND EXTERNAL HARD-CURRENCY DEBT, ESTIMATED AT IN EXCESS OF $3 BILLION AT THE END OF 1974, CONTINUE TO MOUNT. IN NEED OF CREDIT TO FINANCE THIS DEFICIT, AND GENERALLY CONSIDERED CAPABLE OF SUPPORTING ADDITIONAL FOREIGN DEBT, THE GDR WILL BE SEEKING NEW CREDIT SOURCES DURING BEIL'S TRIP. PARTLY BECAUSE IT NEEDS THE MONEY AND PARTLY, WE SUSPECT, TO BROADEN BANKING RELATIONS, THE GDR IS FINANCING THIS YEAR'S GRAIN PURCHASES WITH EURODOLLARS BORROWED AT 1 PER CONFIDENTIAL

CENT ABOVE THE LONDON INTERBANK RATE FROM AS MANY U.S. BANKS AS IT CAN GET INTO THE ACT. BUT CREDIT ASIDE, THE EAST GERMANS WANT, AND BADLY NEED, TO MARKET MORE IN THE WEST, AND WHEN THEY SAY THE TRADE ACT HURTS THEM, THEY SPEAK WITH A CERTAIN AMOUNT OF CONVICTION, EVEN IF ONE MAY DOUBT WHETHER EAST GERMAN MARKETING WOULD DO MUCH BETTER IN THE U.S. UNDER A REGIME OF MFN TREATMENT. IN THIS CONNECTION, ONE SHOULD ANTICIPATE THAT BEIL WILL REFER AT FREQUENT INTERVALS TO CSCE LANGUAGE ON EXPANSION OF TRADE, AND ESPECIALLY TO PROVISIONS CONCERNING THE DESIRABILITY OF MFN AND BILATERAL INTERGOVERNMENTAL AGREEMENTS (P. 90, ENGLISH TEST). THE GDR REMAINS A DEVELOPED INDUSTRIALIZED ECONOMY WHICH, NOTWITHSTANDING ITS ETERNAL BONDS OF FRIENDSHIP WITH THE USSR, WILL

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CONTINUE TO NEED TO IMPORT SOPHISTICATED EQUIPMENT AND TECHNOLOGY FROM THE WEST.

4. GDR GOALS. WE THINK AN IMPORTANT PURPOSE OF THE TRIP WILL BE SERVED MERELY BY THE FACT THAT IT TAKES PLACE, BY THE SYMBOLISM OF A GDR TRADE OFFICIAL GOING TO WASHINGTON; AND WHAT HAPPENS WHILE BEIL IS THERE WILL BE TO SOME DEGREE SECONDARY. STILL HUNGERING AFTER LEGITIMACY IN THE EYES OF THE POPULATION AND THE WORLD AT LARGE, THE REGIME WILL REPRESENT BEIL'S

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TO SECSTATE WASHDC 1698
INFO AMEMBASSY BELGRADE
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AMEMBASSY BUCHAREST
AMEMBASSY BUDAPEST
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TRIP AS A TRIUMPH OF GDR DIPLOMACY AND FURTHE PROOF
OF U.S. ACCEPTANCE OF THE GDR SOCIAL ORDER AND REGIME.

5. ISSUES. THIS IS NOT TO SAY THAT BEIL DOES NOT HAVE
BUSINESS TO RAISE WITH THE PEOPLE HE SEES IN THE U.S.
DRAWING ON OFFICIAL AND PRIVATE CONTACTS, BEIL WILL
SEE THE EXECUTIVE BRANCH IN WASHINGTON, AND
HAS THE TENTATIVE AGREEMENT OF SENATOR MAGNUSON AND
CONGRESSMEN, MORGAN, RUESS AND STAGGERS TO RECEIVE HIM
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IF THEY ARE IN TOWN WHEN HE IS. IN ADDITION, BEIL AND
HIS ENTOURAGE WILL CALL ON FIRMS AND BANKS WITH WHICH
THE GDR HAS ONGOING BUSINESS RELATIONS: DOW, UNION
CARBIDE, STANDARD OIL OF INDIANA, HONEYWELL, ROCKWELL
INTERNATIOL, CHASE MANHATTAN, BANK OF AMERICA,
UNION BANK, CARGILL, CONTINENTAL, TOEPFER AND OTHERS.
THE FOREIGN MINISTRY HAS TOLD US BEIL WILL WISH TO
DISCUSS LONG-TERM DEVELOPMENT OF THE BILATERAL
ECONOMIC RELATIONSHIP WITH THIS AMERICAN INTERLOCUTORS.
AS PREVIOUSLY REPORTED, IN A PRESENTATION AT THE FOREIGN
MINISTRY, US SECTION DIRECTOR GEYER WOVE INTO HIS
PITCH REFERENCES TO BEIL'S TRIP TO JAPAN (IN EARLY
1975 TO SIGN AN AGREEMENT CONFERRING MFN ON THE GDR) AND
DELIBERATIONS ON THE FORTHCOMING FIVE YEAR PLAN AND
THE NINTH PARTY CONGRESS, SUGGESTING THAT THE BEIL
TRIP WILL INFLUENCE GDR TREATMENT OF THE U.S. IN BOTH.
AT COMMERCE, BEIL WILL BE HINTING AT GDR REQUIREMENTS
FOR PLANT AND EQUIPMENT FOR THE NEW FIVE YEAR PLAN
AND WILL PROBABLY SUGGEST THAT CREATION OF A JOINT
COMMISION AND CONCLUSION OF A TRADE AGREEMENT WILL
OPEN GDR DOORS. AT STATE, HE WILL BE SOBER, URGING
REALISM AND FEET ON THE GROUND IN ORDER TO WIN THE
CONFIDENCE OF THE INSTITUTION HE SEES AS MOST HOSTILE
TO GDR ASPIRATIONS. AT STATE HE MAY ALSO TRY TO MOVE
AHEAD ON A POSTAL PACKAGE AGREEMET AND FISHERIES,
OR PORT ACCESS, A SUBJECT ON WHICH WE HAVE HEARD HINTS
OF GDR HOPES. IN THIS CONNECTION, BEIL MAY SUGGEST
AS A FIRST STEP THAT ARRANGEMENTS BE WORKED OUT TO
ALLOW PROVISIONING OF THE GDR FISHING FLEET FROM
U.S. PORTS. AT TRUEASURY, HE MAY BRING UP HIS FOREIGN
TRADE BANK'S BLOCKED ASSESTS (BERLIN 6632), AND MIGHT
PROBE ON THE IMPLICATIONS OF THE JOHNSON ACT FOR U.S.
BANKS' BUSINESS WITH THE GDR.

6. ANOTHER THEME WILL BE THE EXPANSION OF DIRECT
CONTACTS WITH THE U.S. ECONOMY. THE GDR DOES 30 PER
CENT OF ITS FOREIGN TRADE WITH NON-SOCIALIST COUNTRIES,
OF WHICH NEARLY A THIRD, FOR HISTORICAL AND OTHER

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REASONS, IS WITH THE FRG. THE GDR HAS OBTAINED
IMPORTANT BENEFITS THROUGH THIS TRADE, NOT THE LEAST
OF WHICH IS BACK-DOOR ACCESS TO THE EC MARKET. IN
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ADDITION, MUCH OF THE TRADE THAT CURRENTLY GOES ON
WITH THE UNITED STATES PASSES THROUGH TRADERS AND
SUBSIDIARIES OF US FIRMS IN THE FRG AND ELSEWHERE
IN EUROPE. THE GDR SEEMS TO US TO BE TRYING TO BREAK
THAT PATTERN--THEY WOULD LIKE TO REDUCE THEIR DEPEN-
DENCE O THE FRG, BOTH DIRECTLY AND AS A CHANNEL TO THE
REST OF THE WESTERN WORLD. AND FOR REASONS THAT SEEM
TO LIE IN PART IN A POOR UNDERSTANDING OF THE
MODERN MULTINATIONAL CORPORATION, THEY HAVEEN OBSESSION
ABOUT GETTING BEYOND EUROPEAN SUBSIDIARIES TO ESTABLISH
CONTACT WITH PARENT COMPANIES IN THE US. FOR THE GDR,
TRADE WITH THE US MEANS TRADE WITH SAGINAW AND AKRON,
NOT FRANKFURT AND GEEVA.

7. U.S. OBJECTIVES. IN OUR VIEW, THE US REPOSNSE TO
BEIL SHOULD CONVEY TO HIM AMERICAN CONFIDENCE IN OUR
STRENGTH, BOTH ECONOMIC AND POLITICAL, AND THE PURPOSES
OF OUR SOCIETY IN AN ERA OF TRIAL FOR THE WESTERN
DEMOCRACIES. BUILDING ON THE TONE OF REALISM ESTAB-
LISHED DURING MR. DOWNEY'S LEIPZIG VISIT, BEIL SHOULD
BE LEFT WITH NO ILLUSIONS ABOUT THE PROSPECTS FOR
CHANGE IN THE LEGISLATIVE ENVIRONMENT IN WHICH US-GDR
TRADE PROCEEDS, OR ABOUT REAL CONCERNS OF THE
CONGRESS WHICH UNDERLIE IT. AT THE SAME TIME, US
SPOKESMEN SHOULD AVOID CASUAL ACCEPTANCE OF THE GDR
AS A COMPONENT OR ECTENSION OF SOVIET POWER, A FACT OF
LIFE OF WHICH GDR SPOKEMEN ARE ADEQUATELY INFORMED,
BUT ONE WHOSE AFFIRMATION SERVES NO US INTEREST.

8. WE SHOULD PRONOUNCE OURSELVES DISINTERESTED IN
BALANCING BILATERAL TRADE FOR THE SAKE OF BALANCE
ALONE, BUT WILLING TO ENTER INTO MUTUAL BENEFICIAL
TRANSACTIONS WHEN PRICES AND CONDITIONS ARE RIGHT.
WE WANT TO SELL TO THE GDR, BUT WE ARE NOT DRIVEN
INEXORABLY BY THE MOTOR OF CAPITALIST ECONOMY TO DO
SO. WE ARE PLEASED WITH THE STPES THAT HAVE BEEN
TAKEN THUS FAR IN THE DEVELOPMENT OF OUR RELATIONSHIP:
FROM OUR SIDE A MODEST US STAND AT THE SPRING 1975
LEIPZIG FAIR, THE DOWNEY VISIT TO LEIPZIG IN SEPTEMBER,
A SUCCESSFUL CHEMICAL AND PETROCHEMICAL TECHNICAL SALES
SEMINAR IN BERLIN IN NOVEBER, AND PLANS FOR A LARGER
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US PRESENCE AT LEIPZIG IN SPRING 1976. WE HAVE LITTLE DIFFICULTY RECRUITING AMERICAN FIRMS TO PARTICIAPTE IN SUCH EVENTS, AND WE WILL CONTINUE TO VIEW THE MANNER IN WHICH GDR AGENCIES RESPOND TO OUR BUSINESS PEOPLE AS AN INDEX OF GDR INTENTIONS. WE ARE PLEASED THAT AT LEAST ONE U.S. FIRM, DOW CHEMICAL, HAS RECEIVED THE PERMISSION OF THE MINISTRY OF FOREIGN TRADE TO OPEN AN OFFICE IN BERLIN, AND WE HOPE THAT OUTSTANDING ISSUES IN THE CONNECTION, INCLUDING DOW' S QUESTIONS ABOUT THE NEED TO RETAIN THE SERVICES OF A GDR AGENCY FIRM, WILL BE RESOLVED IN A WAY THAT IS MUTUALLY SATISFACTORY.

9. AT COMMERCE, MR. DOWNEY MIGHT REMIND BEIL OF THE GDR COMMITMENT TO PROVIDE US WITH INFORMATION ON THE GDR'S METHOD OF CALCULATINNG US-GDR TRADE STATISTICS, AND TO GIVE US DATA SUPPORTING BEIL'S STATEMENT THAT THE GDR HAS SOLD MORE LICENSES IN THE US THAN THE US IN THE GDR. COOPER

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